

Report
of the
Examination of
Sentry Life Insurance Company
Stevens Point, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 6, 2005

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a
compliance examination has been made of the affairs and financial condition of:

SENTRY LIFE INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sentry Life Insurance Company (Sentry Life or the company) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Sentry Life Insurance Company was incorporated on October 23, 1958, and commenced business on November 11, 1958. The company's current operations are concentrated in the individual life, group life, and group pension annuity markets.

In 2003, the company collected direct premium in the following states:

Wisconsin	\$ 37,509,831	21%
Illinois	18,961,281	11
Texas	14,204,722	8
California	12,797,341	7
All others	<u>96,129,405</u>	<u>53</u>
Total	<u>\$179,602,580</u>	<u>100%</u>

The company is licensed in the District of Columbia and all states except New York. An affiliate, Sentry Life Insurance Company of New York, operates in the state of New York. The major products marketed by the company include group accident and health, ordinary life, and group annuities. The company cedes 100% of the direct group accident and health premiums written, except for group long-term disability, blanket travel accident and certain dental policies, to its parent company, Sentry Insurance a Mutual Company (SIAMCO). The products of Sentry Life are marketed through the Sentry Insurance Group's existing sales force of sales representatives and independent life general agents and brokers.

The following chart is a summary of the premium income reported by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Ordinary life	\$ 33,405,098	\$ 204,068	\$ 4,800,094	\$ 28,809,072
Group life	<u>5,107,693</u>	<u>5,677,944</u>	<u>170,600</u>	<u>10,615,037</u>
Total Life	38,512,791	5,882,012	4,970,694	39,424,109
Ordinary individual annuities	4,277,077			4,277,077
Group annuities	<u>173,532,618</u>	<u> </u>	<u> </u>	<u>173,532,618</u>
Total annuities	177,809,695	0	0	177,809,695
Group accident and health	15,929,317		7,134,629	8,794,688
Other accident and health	<u>110,860</u>	<u> </u>	<u>51,929</u>	<u>58,931</u>
Total accident and health	<u>16,040,177</u>	<u>0</u>	<u>7,186,558</u>	<u>8,853,619</u>
Total premium and annuity considerations	<u>\$232,362,663</u>	<u>\$5,882,012</u>	<u>\$12,157,252</u>	<u>\$226,087,423</u>
Deposit-type funds				\$ 23,228
Transfers to or (from) separate accounts				\$ 39,750,515

The life products represent 17%, annuities 79%, and accident and health products 4% of the total net premium and annuity considerations.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members elected annually by the shareholder. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members receive no compensation specific to their service on the board because all are employees of the parent, Sentry Insurance a Mutual Company.

Sentry Life's board of directors meets once a year. Other actions of the board are evidenced by consent resolutions signed by all directors. This practice is permitted by s. 180.0821, Wis. Stat.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President, Sentry Insurance a Mutual Company	2005
Janet L. Fagan Stevens Point, Wisconsin	Vice President and Chief Actuary, Sentry Insurance a Mutual Company	2005
William J. Lohr Stevens Point, Wisconsin	Vice President and Treasurer, Sentry Insurance a Mutual Company	2005
William M. O'Reilly Stevens Point, Wisconsin	Vice President, General Counsel and Corporate Secretary, Sentry Insurance a Mutual Company	2005
James J. Weishan Stevens Point Wisconsin	Vice President – Investments, Sentry Insurance a Mutual Company	2005

Officers of the Company

The officers serving at the time of this examination are as follows. The officers are employed and compensated by Sentry Insurance a Mutual Company. The officers of Sentry Life may also be officers of other companies in the Sentry Group. The salaries listed below are the portion of the officer's total salary that is allocated to Sentry Life.

Name	Office	2004 Compensation
Dale Robert Schuh	Chief Executive Officer	\$212,086
Wallace Dee Taylor	President	23,525
William James Lohr	Treasurer	45,787
William Michael O'Reilly	Secretary	49,853
Janet Leitner Fagan	Vice President & Chief Actuary	65,921

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company did not have any committees at the time of the examination.

IV. AFFILIATED COMPANIES

Sentry Life is a member of a holding company system (Sentry Insurance Group) controlled by Sentry Insurance a Mutual Company (SIAMCO), a Wisconsin-domiciled mutual insurer. SIAMCO has 22 subsidiaries and affiliates, including 11 insurers and 11 noninsurance entities. SIAMCO is also affiliated with Dairyland County Mutual Insurance Company of Texas through common management. A chart of all of the entities in the holding company system is presented later in this section of the examination report.

A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates with which Sentry Life has reinsurance or other important affiliated relationships.

Sentry Insurance a Mutual Company

SIAMCO owns all of the issued and outstanding common stock of Sentry Life. SIAMCO is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On a direct basis, the parent company writes a wide range of property and casualty insurance products, predominantly worker's compensation and automobile coverage. SIAMCO has a 60% participation in the affiliated pooling agreement, whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The 2003 annual statement reported assets of \$4,282,734,663, liabilities of \$2,105,670,251, policyholders' surplus of \$2,177,064,411, and net income of \$116,879,367. SIAMCO was examined concurrently with Sentry Life as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Life Insurance Company of New York

Sentry Life Insurance Company of New York (SLONY), a wholly owned subsidiary of Sentry Life, is a New York-domiciled life insurer incorporated on May 23, 1966. It is licensed in New York, Minnesota, and North Dakota. Most of the company's direct business is written in New York, which is the territorial focus of its sales efforts. It writes predominantly group accident and health products, though individual and group life insurance and annuity business are written as well. SLONY retains nearly all of its direct writings. The 2003 annual statement reported

assets of \$42,787,072, liabilities of \$36,254,455, policyholders' surplus of \$6,532,617, and net income of \$519,194.

Sentry Equity Services, Inc.

Sentry Equity Services, Inc., organized as a Delaware corporation on May 9, 1969, is a registered broker-dealer under the Securities Exchange Act of 1934. The corporation's security operations are limited to the sale and redemption of redeemable securities issued by registered investment companies. The company acts as the distributor of Sentry Life Insurance Company's Variable Annuity and Variable Universal Life products. As of December 31, 2003, the corporation reported \$89,909 in assets, \$19,347 in liabilities, \$70,562 in stockholder's equity, and \$5,998 in net income.

Sentry Investment Management, Inc.

Sentry Investment Management, Inc., a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. As of December 31, 2003, the corporation reported \$354,027 in assets, \$218,537 in liabilities, \$135,490 in stockholder's equity, and \$5,538 in net income. The company is a wholly owned subsidiary of SIAMCO.

Affiliated Agreements

Sentry Life has no employees of its own. All operations are conducted by employees of its parent organization, SIAMCO, in accordance with its business practices and internal controls. In addition, the company's operations are affected by written agreements with Sentry Insurance Group affiliates. The reinsurance contracts are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Joint Investment Agreement

Effective January 1, 1980, the company entered into a joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. The fifth amended and restated agreement was entered into as of September 1, 2004, to delete Sentry Life Insurance Company of

New York. SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of twelve months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, Inc. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Sentry Complex Income Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for all companies that are party to SIAMCO's consolidated return. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. The key premise of this policy is that parties to the consolidated return that receive a tax reduction through utilization of some other member's tax loss are to compensate that other member for the use of the loss. Federal income taxes payable and tax benefits receivable are to be settled among the participants on the consolidated return on the same dates as would be required of each participant on a separate return basis.

Broker Dealer Agreement

Effective August 1, 1984, the company entered into a broker-dealer agreement with Sentry Equity Services, Inc. (SESI). Under this contract, SESI is to act as a broker-dealer for Sentry Life's variable annuity products. SESI assumes full responsibility for the securities activities of all persons engaged directly or indirectly in the variable annuity operations of Sentry Life. Operations include training, supervision, and control as contemplated under the Securities and Exchange Act of 1934, any regulations thereunder, or by the rules of the National Association

of Securities Dealers, Inc. Sentry Life agrees to maintain all accounting records, pay all commissions, confirm all transactions, pay all expenses, and provide all facilities and personnel associated with the variable annuity operations of SESI. Sentry Life guarantees maintenance of the minimum capitalization necessary for SESI to meet the requirements of the Security and Exchange Act of 1934. (This minimum requirement was \$5,000 in the most recent fiscal year.) The agreement may be terminated at any time by either party on presentation of written notice, subject to compliance with the Securities and Exchange Act of 1934.

Investment Advisory Agreement

On April 23, 1991, the company entered into an investment advisory agreement with Sentry Investment Management, Inc. (SIMI). This contract was amended and restated as of December 31, 2003. Under this contract, SIMI is employed to manage and direct the investment and reinvestment of the assets of SIAMCO, subject to the control of SIAMCO's board of directors. SIMI agrees to comply with the company's articles, bylaws, investment policies, and all applicable federal or state laws. Provided that it acts in good faith, the advisor is held harmless except in the event of a loss resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard. SIMI charges the company a monthly fee computed as follows:

One twelfth (1/12) of an amount equal to the sum of (a) and (b)

- (a) Common stocks, excluding those of affiliates:
.379 percent (\$3.79 per \$1,000) of market value;
- (b) Bonds and preferred stocks, excluding those of affiliates:
.0379 percent (\$.379 per \$1,000) of market value.

In addition, the actual cost of any expense borne by the advisor on behalf of the company is reimbursed. The contract may be terminated by either of the parties with 60 days' written notice.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add

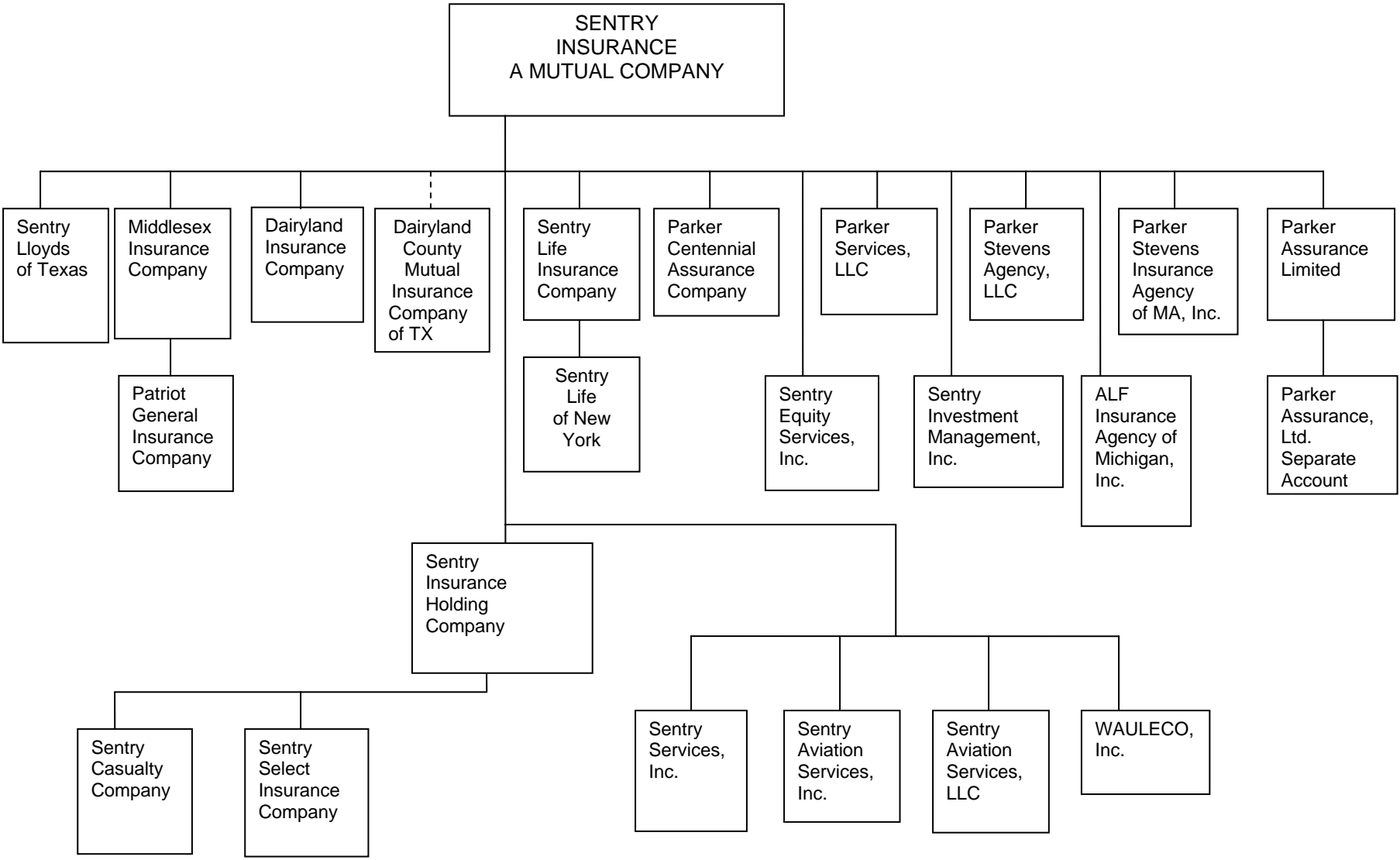
Parker Centennial. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Intercompany Settlement Policy

The Intercompany Settlement Policy has been amended and restated to add or delete companies as necessary. This contract was last amended and restated as of March 19, 2004, to add Parker Centennial. The cash management area settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for daily, weekly, monthly, semi-annual and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and Sentry Aviation Services and Sentry Services, which are settled as funds are available.

**Sentry Group
Organizational Chart
As of December 31, 2004**

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V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Ceding Contracts

1. Type:	Automatic Quota Share
Reinsurer:	Sentry Insurance a Mutual Company
Scope:	All group accident and health business except for group long-term disability, blanket travel accident and certain dental policies. The business is ceded exclusive of insureds 4% risk free income association with a certain type long-term disability policy.
Retention:	None
Coverage:	100%
Premium:	100% interest in the unexpired premiums in force as of the effective date of the original agreement (December 31, 1986). For the calendar month beginning January 1, 1997, 100% of the gross premium collected by insurer will be ceded.
Ceding commission:	Equal to the estimated present value of future profits payable as of the effective date of the amendment.
Effective date:	As Amended on December 31, 2003
Termination:	By either party with 90 days' advance written notice

Nonaffiliated Ceding Contracts

SLONY cedes individual life on an excess basis to Sentry Life. This assumption contract is outlined in this section of the examination report in the Affiliated Assuming Contract subsection. SLONY retains \$50,000 of life and/or accidental death benefits; Sentry Life retains the next \$200,000 and then cedes the remaining risks among three companies on an alphabetic basis. Surnames beginning with A through F are ceded to Munich American Reassurance, G through N are ceded to Security Life of Denver, and O through Z are ceded to Transamerica Occidental. During the past five years the company has shifted its writing of new business toward the Patriot Term products and away from traditional life products. As a result, most of the

contracts that were reviewed during the prior exam are no longer a material part of the company's reinsurance program.

1. Type: Automatic and Facultative Coinsurance
Reinsurer: Generali USA Life Reassurance
Scope: Level Benefit Term to age 95 (Patriot Term)
Retention: Effective 7/1/1999 (LBT95 Plan)
50% of each case up to \$250,000 retained then cede 100% of excess

Effective 9/1/2002 (LBT2 Plan)
First \$100,000 of each case plus 50% of excess over \$100,000 until \$250,000 retained each case, then cede 100% excess

Retention grades down by age and table rating

Minimum Cession: \$5,000
Waiver of Premium: Reinsured on a facultative basis only

Coverage: Amount exceeding the company's retention not to exceed 10 times the company's retention.

Premium: Per the rate schedules attached to the contract

Effective date: July 1, 1999

Termination: May be terminated at any time, for new reinsurance only, by either party with 90 days' advance written notice
2. Type: Automatic Monthly Renewable Coinsurance
Reinsurer: Reliastar Life Insurance Company
Scope: SIAMCO Group's Employees Basic & Supplemental Life Basic and Supplemental Group Accidental Death & Dismemberment

Retention: \$150,000 for both life and accidental death & dismemberment

Coverage: Up to \$950,000 per person for the company's Plan
Up to \$500,000 per person for all other life and AD & D policies
Facultative coverage is available for larger risks subject to written approval by the Reinsurer

Reinsurer is liable for its share of all expenses incurred by the company in connection with the investigation and settlement of claims and is entitled to participate in any salvage or subrogation recovered

Premium: Group Life Reinsurance rates: attached exhibit
Group AD & D: \$0.026/per1000/per month

Effective date: January 1, 2003

Termination: May be terminated, with respect to new reinsurance, on any January 1 by giving the other party 90 days prior written notice.

Affiliated Assuming Contract

Type: Automatic and Facultative Monthly Renewable Term

Reinsured: Sentry Life Insurance Company of New York

Scope: Life and Accidental Death Coverage

Retention:

<u>Risk Class</u>	<u>Ages</u>	<u>Amount</u>
Standard - Table D	0-60	\$50,000
	61+	50,000
Tables E-H	0-60	35,000
	61+	25,000
Tables J-P	0-60	25,000
	61+	10,000

Coverage: Up to \$5,000,000 per life; up to \$100,000 per accidental death

Effective date: November 1, 1984

Termination: By either party with 90 days' advance written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Sentry Life Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$1,381,429,838	\$	\$1,381,429,838
Stocks:			
Common stocks	6,532,617		6,532,617
Short-term investments	12,194,362		12,194,362
Contract loans	21,073,515		21,073,515
Receivable for securities	983,370		983,370
Write-ins for invested assets:			
Funds in Transit	(394,989)		(394,989)
Investment income due and accrued	22,891,289	37,962	22,853,327
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	(828,002)	320	(828,322)
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	5,934,401		5,934,401
Reinsurance:			
Amounts recoverable from reinsurers	321,297		321,297
Other amounts receivable under reinsurance contracts	304,655		304,655
Net deferred tax asset	15,634,877	15,137,050,	497,827
Guaranty funds receivable or on deposit	173,595		173,595
Receivable from parent, subsidiaries and affiliates	3,554,558		3,554,558
Write-ins for other than invested assets:			
Account receivable – other	224,136		224,136
Total assets excluding separate accounts, segregated accounts and protected cell assets	<u>1,470,029,319</u>	<u>15,175,332</u>	<u>1,454,853,987</u>
From separate accounts, segregated accounts and protected cell assets	<u>856,437,383</u>	<u> </u>	<u>856,437,383</u>
Total Assets	<u>\$2,326,466,702</u>	<u>\$15,175,332</u>	<u>\$2,311,291,370</u>

Sentry Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Aggregate reserve for life contracts	\$1,222,416,638
Aggregate reserve for accident and health contracts	24,852,303
Liability for deposit-type contracts	2,176,453
Contract claims:	
Life	3,778,294
Accident and health	482,992
Provision for policyholders' dividends and coupons payable in following calendar year:	
Not yet apportioned	286,008
Surrender values on cancelled policies	1,666,949
Provision for experience rating refunds	1,669,458
Interest maintenance reserve	3,696,404
Commissions to agents due or accrued	22,795
General expenses due or accrued	131,828
Transfers to separate accounts due or accrued (net)	(1,094,491)
Taxes, licenses, and fees due or accrued, excluding federal income taxes	582,313
Current federal and foreign income taxes	9,262,279
Amounts withheld or retained by company as agent or trustee	34,190
Remittances and items not allocated	1,160,965
Miscellaneous liabilities:	
Asset valuation reserve	1,582,666
Payable to parent, subsidiaries and affiliates	24,362
Payable for securities	79,029
Write-ins for liabilities:	
Escheats	194,321
VUL Policy Loans Liability	399,750
From Separate Accounts Statement	<u>844,335,384</u>
Total Liabilities	2,117,740,890
 Common capital stock	 3,161,780
 Gross paid in and contributed surplus	 \$ 43,719,081
Unassigned funds (surplus)	<u>146,669,619</u>
 Total Capital and Surplus	 <u>190,388,700</u>
 Total Liabilities, Capital and Surplus	 <u>\$2,311,291,370</u>

Sentry Life Insurance Company
Summary of Operations
For the Year 2003

Premiums and annuity considerations for life and accident and health contracts		\$226,087,423
Considerations for supplementary contracts with life contingencies		20,903
Net investment income		99,298,991
Amortization of interest maintenance reserve		620,894
Commissions and expense allowances on reinsurance ceded		4,924,998
Miscellaneous income:		
Income from fees associated with investment management, administration, and contract guarantees from separate accounts		2,763,978
Write-ins for miscellaneous income:		
Administration Fee		3,434,742
Surrender Charges		997,778
Other Income		493,126
Service Income Ceded		<u>(43,416)</u>
Total income items		338,599,417
Death benefits	\$23,035,092	
Matured endowments	74,982	
Annuity benefits	50,218,249	
Disability benefits and benefits under accident and health contracts	5,449,085	
Surrender benefits and withdrawals for life contracts	98,423,300	
Group conversions	5,291	
Interest and adjustments on contract or deposit-type contract funds	137,253	
Payments on supplementary contracts with life contingencies	77,173	
Increase in aggregate reserves for life and accident and health contracts	<u>61,523,460</u>	
Subtotal	238,943,885	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	5,209,761	
Commissions and expense allowances on reinsurance assumed	3,305	
General insurance expenses	24,518,738	
Insurance taxes, licenses, and fees excluding federal income taxes	1,989,312	
Increase in loading on deferred and uncollected premiums	98,407	
Net transfers to or (from) Separate Accounts net of reinsurance	39,750,515	
Write-in for deductions:		
VUL Policy Loan Liability	<u>(2,078)</u>	
Total deductions		<u>310,511,845</u>

Net gain (loss) from operations before dividends to policyholders and federal income taxes	28,087,572
Dividends to policyholders	<u>232,054</u>
Net gain (loss) from operations after dividends to policyholders and before federal income taxes	27,855,518
Federal income taxes incurred (excluding tax on capital gains)	<u>10,072,000</u>
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses	17,783,518
Net realized capital gains or (losses), less capital gains tax	<u>(403,646)</u>
Net Income	<u>\$ 17,379,872</u>

Sentry Life Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance		\$225,996,120
Net investment income		95,569,206
Miscellaneous income		<u>7,586,220</u>
Total		329,151,546
Benefits and loss related payments	\$176,032,334	
Net transfers to separate, segregated accounts and protected cell accounts	39,510,250	
Commissions, expenses paid, and aggregate write-ins for deductions	26,661,484	
Dividends paid to policyholders	276,024	
Federal and foreign income taxes paid (recovered)	<u>7,161,554</u>	
Total deductions		<u>249,641,646</u>
Net cash from operations		79,509,900
Proceeds from investments sold, matured, or repaid: Bonds	263,316,535	
Cost of investments acquired (long-term only): Bonds	390,408,189	
Net increase (or decrease) in policy loans and premium notes	<u>(1,099,579)</u>	
Net cash from investments		(125,992,075)
Cash from financing and miscellaneous sources: Net deposits on deposit-type contracts and other insurance liabilities	555,849	
Other cash provided (applied)	<u>918,857</u>	
Net cash from financing and miscellaneous sources		<u>1,474,706</u>
Reconciliation		
Net change in cash and short-term investments		(45,007,469)
Cash and short-term investments, December 31, 2002		<u>57,201,832</u>
Cash and short-term investments, December 31, 2003		<u>\$ 12,194,363</u>

Sentry Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets			\$2,311,291,372
Less security surplus of insurance subsidiaries			6,532,618
Add security surplus excess of insurance subsidiaries			3,732,617
Less liabilities			<u>2,117,740,892</u>
Adjusted surplus			190,750,479
Annual premium:			
Individual life and health	\$28,052,941		
Factor	<u>15%</u>		
Total		\$ 4,207,941	
Group life and health	19,880,526		
Factor	<u>10%</u>		
Total		1,988,052	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds			<u>19,172,564</u>
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>25,368,557</u>
Compulsory surplus excess or (deficit)			<u>\$ 165,381,922</u>
Adjusted surplus (from above)			\$ 190,750,479
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>33,993,866</u>
Security surplus excess or (deficit)			<u>\$ 156,756,613</u>

Sentry Life Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000
Capital and surplus, beginning of year	\$178,165,211	\$169,126,989	\$154,306,218	\$137,493,700
Net income	17,379,872	8,733,202	10,248,883	16,070,502
Change in net unrealized capital gains or (losses)	(3,588,016)	(293,168)	457,374	220,459
Change in net deferred income tax	1,255,235	2,455,762	1,973,795	
Change in nonadmitted assets and related items	(702,696)	(3,094,803)	(1,966,996)	846
Change in liability for reinsurance in unauthorized companies				10,000
Change in asset valuation reserve	(1,198,155)	1,374,260	3,456,067	510,711
Surplus (contributed to) withdrawn from separate accounts		(10,000,000)		
Other changes in surplus in separate accounts statement	2,239,029	9,862,969		
Cumulative effect of changes in accounting principles			651,648	
Dividends to stockholders				
Capital and surplus, end of year	<u>\$193,550,480</u>	<u>\$178,165,211</u>	<u>\$169,126,989</u>	<u>\$154,306,218</u>

Sentry Life Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2003	2002	2001	2000
#1	Net change in capital & surplus	9%	5%	10%	12%
#2	Gross change capital & surplus	9	5	10	12
#3	Net income to total income	5	2	3	5
#4	Commissions and Expenses to Premiums and Deposits		Discontinued		
#5	Adequacy of investment income	142	145	142	140
#6	Non-admitted to admitted assets	1	1	1	0
#7	Total real estate & mortgage loans to cash & invested assets	0	0	0	0
#8	Total affiliated investments to capital & surplus	5	8	6	7
#9	Surplus relief	3	3	5	6
#10	Change in premium	-37*	83*	2	17
#11	Change in product mix	1.4	3.0	8.0*	1.0
#12	Change in asset mix	0.6	0.0	0.0	0.0
#13	Change in reserving ratio	-3	1	10	-12

Ratio No. 10 measures change in premium. The exceptional results for 2002 and 2003 were due to two 2002 affiliated transactions: SIAMCO invested \$130.4 million previously held by its 401(k) plan into Sentry Life's Separate Account, and SIAMCO made a \$42.3 million defined benefit plan contribution. Ratio No. 11 measures change in product mix. The exceptional result in 2001 was due to the company focusing more on annuity business and less on ordinary life business. In 2001 group annuities increased from 30% to 69% of written premium.

Growth of Sentry Life Insurance Company

Year	Admitted Assets	Liabilities	Surplus
2003	\$2,311,291,370	\$2,117,740,890	\$193,550,480
2002	2,003,586,592	1,825,421,385	178,165,211
2001	1,895,566,377	1,726,439,390	169,126,989
2000	1,886,742,177	1,732,435,960	154,306,217
1999	1,871,340,761	1,733,847,063	137,493,699

Net Premium Income

Year	Life	Annuities	Accident & Health	Net Income
2003	\$39,424,109	\$177,809,695	\$8,853,619	\$17,379,872
2002	44,264,195	302,965,710	9,275,471	8,733,202
2001	44,716,809	144,321,035	5,515,938	10,248,883
2000	44,944,967	31,002,774	5,174,004	16,070,502
1999	42,968,417	31,500,870	3,694,491	16,026,033

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2003	\$6,855,468	\$1,468,989	\$5,386,479
2002	10,556,456	1,345,041	9,211,415
2001	10,665,181	1,162,843	9,502,338
2000	9,437,549	955,671	8,481,878
1999	8,279,619	553,209	7,726,410

Admitted assets and surplus have increased each year during the examination period. The decrease of \$3.7 billion of in-force life business in 2003 from 2002 is predominantly due to the company discontinuing its participation in Federal Employees' Group Life Insurance and Servicemen's Group Life Insurance.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Actuarial Opinion—It is recommended that the company include all reliance statements with the actuarial opinion in accordance with s. Ins 50.78 (2) (d), Wis. Adm. Code.

Action—Compliance.

Summary of Current Examination Results

Affiliated Companies

It was noted that the company did not include any amounts in Schedule Y, Part 2, Column 8. According to NAIC Annual Statement Instructions – Life, Accident and Health, Schedule Y, Part 2, Column 8, should include all revenues and expenditures under management agreements and service contracts, all income tax amounts resulting from intercompany tax-sharing arrangements, all amounts for contracts for services provided by the insurer or purchased by the insurer from other affiliates, and all compensation under agreements with affiliated brokers and reinsurance intermediaries; the introductory portion of these instructions prescribe materiality limits on what must be reported. The company's interpretation is that these limits apply and therefore the company left this schedule blank. Pursuant to s. Ins 40.04, Wis. Adm. Code, all affiliated, management and service agreements are material and the amounts paid to or received from affiliates should be included in Column 8 of Schedule Y, Part 2, pursuant to s. 601.42 (3), Wis. Stat. It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

VIII. CONCLUSION

Sentry Life Insurance Company commenced business on November 11, 1958. The company is licensed in the District of Columbia and all states except New York. The major products marketed by the company include group accident and health, ordinary life, and group annuities.

Admitted assets and surplus have increased each year during the examination period. The company is focusing more on annuity business and less on ordinary life business. In 2001 group annuities increased from 30% to 69% of written premium. In 2002 SIAMCO made a \$130.4 million 401(k) plan contribution and a \$42.3 million defined benefit plan contribution into Sentry Life policies. Life insurance in force decreased \$3.7 billion between 2002 and 2003, predominantly due to the company discontinuing its participation in Federal Employees' Group Life Insurance and Servicemen's Group Life Insurance.

The examination verified the financial condition of the company as reported in its annual statement. No examination adjustments or reclassifications are being made. The company complied with the recommendation made in the previous examination report. One recommendation concerning properly completing Schedule Y, Part 2, of the annual statement is being made.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Affiliated Companies—It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Amy Wolff	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Eleanor Opprieht	Insurance Financial Examiner
Richard Anderson	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced
Tim VandeHey	Insurance Financial Examiner—Advanced

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge